

Legislative Audit Division

State of Montana



Report to the Legislature

December 2004

Performance Audit

Governor's Office of Economic Opportunity

Office of the Governor

This report provides findings and recommendations relating to our performance audit of the Governor's Office of Economic Opportunity (GOEO). Findings and recommendations relate to the following areas:

- ▶ Options for the future direction of the office.
- ▶ GOEO strategic planning procedures.
- ▶ Assigning program responsibilities to GOEO.
- ▶ Changes in the office's governance structure.
- ▶ Status of GOEO staff and funding.

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James Gillett, Financial-Compliance Audit

December 2004

The Legislative Audit Committee
of the Montana State Legislature:

This is our performance audit of the Governor's Office of Economic Opportunity (GOEO). A performance audit of GOEO was requested by the 2003 Legislature.


This report provides information to the Legislature concerning GOEO operations and activities. Findings and recommendations address multiple areas, including the office's future direction and role, strategic planning procedures, governance structure, staff, and funding. A written response from the Office of the Governor is included at the end of the report.

We wish to express our gratitude to GOEO staff, staff in other departments and the university system, representatives of local economic development organizations, and other individuals in the private sector for their cooperation and assistance during this audit

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", with a long horizontal flourish extending to the right.

Scott A. Seacat
Legislative Auditor



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Legislative Audit Division

Performance Audit

Governor's Office of Economic Opportunity

Office of the Governor

Members of the audit staff involved in this audit were Angie Grove,
Angus Maciver, and Joe Murray.

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Office of the Governor

Judy Martz, Governor

Dave Gibson, Chief Business Officer
Governor's Office of Economic Opportunity

Introduction

The 2003 Legislature included language in House Bill (HB) 2 requesting the Legislative Audit Committee prioritize a performance audit of the Governor's Office of Economic Opportunity (GOEO). HB 2 terminology suggests the Legislature is seeking some assurance that GOEO is meeting established goals or targets. However, the request also suggests there is continuing uncertainty among state policy makers regarding the fundamental purpose of the office and the overall economic development structure in Montana.

Statute assigns GOEO both a policy and a program role, but there is limited additional definition of these terms. Although some of the issue areas assigned to GOEO in statute could be construed as involving program administration, statute does not provide specific guidance. Creating GOEO was part of continuing efforts to coordinate the increasingly varied economic development resources available in state government.

Current GOEO Structure Does Not Provide Continuity

GOEO has been in existence for approximately three years. During this time, the office has been responsible for developing a strategic economic development plan, pursuing policy initiatives outlined in the plan, and conducting other activities assigned in statute or considered necessary by the Governor or the Legislature. The effectiveness of GOEO needs to be assessed by reviewing the office's activities and accomplishments in the context of Montana's previous statewide economic development planning and policy coordination efforts. For much of the past three decades Montana appears to have been stuck in perpetual planning mode. There has never been a long-term commitment to pursuing solutions or tracking progress.

If GOEO is to lead the state's economic development policy coordination and planning efforts, there must be some assurance that the office can provide continuity and long-term focus on issues. The current structure for state

Report Summary

Legislature Should Determine the Future of GOEO

economic development functions does not provide an opportunity to break free from the perpetual planning mode.

Continuing with the current structure risks wasting time and resources developing plans and policy initiatives with minimal long-term impacts. In these circumstances, eliminating the office may be preferable to continuing to devote resources to activities with limited benefits. The alternative is to develop GOEO as a mechanism for promoting continuity and stability in the state's economic development policy and planning function. Four main issues should be addressed to achieve this:

- 1) Improve strategic planning
- 2) Define GOEO programmatic duties
- 3) Revise GOEO governance structure
- 4) Determine GOEO resource needs

GOEO Planning Procedures Met Accepted Standards

In general, the strategic planning process involves plan development, policy formulation and prioritization, and plan implementation and monitoring. The planning process used in developing the Roadmap plan met accepted standards and was comparable with planning efforts in other state agencies. The process used in developing the office's strategic economic development plan ensured opportunities were available for public comment. The policy initiatives addressed in the Roadmap plan are reasonable and appropriate in the context of the theory and current practice of state economic development policy. The performance measurement system developed by GOEO in the Roadmap plan can provide an effective means of monitoring progress towards the office's goals.

GOEO Should Develop Plan Update Procedures

There are currently no formalized procedures in place to provide guidance on how the Roadmap will be reviewed and updated. GOEO should develop and adopt formal review and update procedures for the Roadmap plan to help strengthen the credibility of the planning process among stakeholders and improve the effectiveness of GOEO operations.

Confusion Exists over GOEO Role

There is confusion over the purpose of GOEO relating primarily to the office's responsibility for programmatic functions. GOEO is assigned responsibility for two programs: state marketing and business recruitment, and administration of the Primary Sector Business Workforce Training Act.

Marketing and Business Recruitment Needs Should be Determined

Statute requires GOEO to pursue this function and the original appropriation suggested the Legislature envisioned an active recruitment effort. Following reductions in funding, GOEO now operates a passive recruitment program. It is unclear whether the Legislature wants GOEO to perform this role. If the Legislature determines Montana needs to pursue state marketing and business recruitment, GOEO is the suitable organizational location for these functions. Both marketing and business recruitment functions could benefit from proximity to the external connections available in the Governor's office. If the Legislature makes a commitment to this program, funding for these efforts should be addressed.

Identify Alternative Structures for Workforce Training Program Administration

GOEO administers the Primary Sector Business Workforce Training Act through a grant application and review process. The main concern in relation to this program is that existing structures within state government already perform workforce-training functions. Both the Department of Labor and Industry and the Department of Commerce have expertise and resources in administering workforce training grant programs. The Legislature should reassess the current disposition of functions associated with the Primary Sector Business Workforce Training Act. Administrative efficiency and resource availability should be principal concerns in these decisions. In the case of the Workforce Training Act, there are alternative structures in other departments.

GOEO Governance Structure

The organization and relationships between governmental entities establishes the governance structure within which agencies work. In relation to GOEO, audit work identified a weak governance structure as being partly responsible for problems affecting the office. We believe the current structure presents several difficulties affecting the continuity and long-term stability of functions performed by GOEO:

Report Summary

- ▶ **Isolation and Politicization** – GOEO is isolated within the executive branch and this has led to its functions being perceived as politicized. Politicization could decrease the chance of developing successful long-term policy initiatives.
- ▶ **Stakeholder Involvement** – there are insufficient opportunities for important stakeholders, including the Legislature and the university system, to provide input.
- ▶ **Oversight** –Periodic changes in administration may result in significant changes in oversight procedures, making effective monitoring of long-term progress doubtful.

Alternative Approaches Could Promote Continuity and Stability

By reviewing alternative organizational approaches used for other policy and strategic planning functions in Montana and in other states, we can identify some potential changes in the governance structure for GOEO. Three generalized models are identified; departmental model, corporate model, and commission model.

Department Model Does Not Reflect Policy Trends

The departmental model reverts back to an organizational structure previously used in Montana. Policy and programmatic functions currently assigned to GOEO would be moved within an existing department. Recent trends suggest Montana has moved beyond this structure and there does not appear to be broad support for a return to the department model. The ability to develop and coordinate policy across state government and deliver certain strategic programs could be compromised within the department model.

Corporate Model Requires Broader Revision of Economic Development Functions

In the corporate model GOEO functions are moved into an organization outside of state government (a private, not-for-profit corporation.) Based on the experiences of other states, moving Montana to a corporate model would entail significant restructuring within several state agencies. Additionally, concerns over constitutional limitations on the independence and flexibility accorded to a corporate entity could reduce benefits offered by this model.

Commission Model Offers Solutions Appropriate to Current Situation

Under the commission model GOEO remains part of the Governor's Office, but a commission or board is introduced as a governing entity. The commission's membership would reflect a broad range of interests and could provide both oversight and added input on policy development or program functions. We believe some version of the commission model provides the best prospect for resolving some concerns relating to GOEO. The commission model offers the prospect of insulating GOEO from political pressure and stabilizing the office's functions through transitions in administration. The Legislature should address commission membership terms and role.

Resource Availability

GOEO has faced resource limitations since its establishment. Resource availability issues relate to both the office's staffing and budgets. However, the office's policy focus means human resource availability is a more important issue. The lack of program responsibilities means the financial resources available to the office are of secondary importance.

Human Resources

By law, the Chief Business Officer (CBO) and six professional staff positions are exempted from provisions in statute relating to state employee classification, compensation, and dismissal. The office currently operates with two FTE, in addition to the CBO. Two employees left during 2003, and one position was left vacant following the death of another employee. GOEO, other state agencies, and the private sector have argued that one of the factors contributing towards employee departures is that these positions are perceived as being political appointments and that this has contributed to problems with continuity in their relationships.

Staff Positions Should Reflect Governance Structure

Maintaining flexibility in staffing decisions could be beneficial for GOEO, but there are understandable concerns over instability resulting from frequent turnover. The problem relates to the link between specific gubernatorial administrations and the office's staff. The potential solution could be assigning GOEO personnel as the permanent staff of a governance commission. Decisions regarding terms of service would be the responsibility of the commission.

Report Summary

Funding Should Be Stabilized

GOEO is funded primarily through the state's general fund. Over the past four years, GOEO has seen its total available funding reduced by approximately one third. Based only on general fund, the funding reduction is around 42 percent and these cuts have been made without any changes in the scope of the office's functions.

Legislature Should Address GOEO Staffing and Funding

We believe the Legislature should consider taking steps to stabilize GOEO funding to ensure the functions performed by the office can benefit from long-term continuity. Identifying a stable, long-term revenue source could help provide a greater degree of continuity in Montana's economic development functions and promote strategic thinking in efforts to improve the economic well-being of the state.

Chapter I - Introduction & Background

Introduction

Montana has taken a variety of different approaches to economic development over the years. The creation of the Governor's Office of Economic Opportunity (GOEO) during the 2001 legislative session was the latest attempt at economic development, but the history of these efforts in Montana goes back further.

The active engagement of government in economic development has always been driven by trends affecting the wider economy. As the national economy grew through the post-war period, government economic development efforts in Montana received limited attention. This began to change in the 1970s as the decline of the state's agricultural and natural resource-based industries accelerated. Montana began to actively engage in economic development as global trends impacted the local economy. For the last three decades Montana's policy makers have been engaged in an effort to chart a course for the state's economy.

House Bill 2 Audit Request

In 2003 the Legislature included language in House Bill (HB) 2 requesting the Legislative Audit Committee prioritize a performance audit of GOEO. The HB 2 audit request included references to "the office's benchmarks, the basis and accuracy of reported status indicators, statistics, and accomplishments, and the program's effectiveness and outcomes." HB 2 terminology suggests the Legislature is seeking some assurance that GOEO is meeting established goals or targets. However, the request also suggests there is continuing uncertainty among state policy makers regarding the fundamental purpose of the office and the overall economic development structure in Montana.

Statutory Authority and Purpose of GOEO

Statutes establishing GOEO and outlining the structure and mission of the office are found in Title 2, chapter 15, part 2, MCA. Section 2-15-218, MCA, establishes the office and the position of Chief Business Officer (CBO). The CBO is the head of the office and is appointed by the Governor. This section also establishes five "policy and program specialties" assigned to the office: business retention and recruitment, workforce development, technology development,

Chapter I – Introduction & Background

infrastructure improvement, and permitting and regulatory processes. GOEO is authorized to employ or contract with policy specialists to perform these functions. Section 2-15-219, MCA, outlines the following duties for the CBO:

- ▶ Advise the governor on policy issues related to economic development.
- ▶ Lead the state's business recruitment, retention, and expansion efforts.
- ▶ Coordinate development and distribution of a statewide economic development plan.
- ▶ Coordinate individual functions and programs within the office.
- ▶ Serve as the state's primary liaison between federal, state, and local agencies, tribal governments, and private sector organizations.

GOEO Cooperation with State Agencies

Further statutory references to GOEO can be found in Title 90, chapter 1, part 1, MCA, (Planning and Economic Development). Section 90-1-113, MCA, requires that all state agencies with economic development responsibilities cooperate with GOEO and provide the office with necessary support and resources. Section 90-1-114, MCA, assigns GOEO authority to adopt administrative rules related to its duties. Title 90 also outlines various programmatic economic development responsibilities assigned to the Department of Commerce and other state agencies.

GOEO Purpose as Defined by Statute

Statute assigns GOEO both a policy and a program role, but there is limited additional definition of these terms. Although some of the issue areas assigned to GOEO in statute could be construed as involving program administration, statute does not provide specific guidance. The only defined programmatic responsibility assigned to GOEO is administration of the Primary Sector Business Workforce Training Act in Title 39, chapter 11, MCA.

Montana's Economic Development Structure

Creating GOEO was part of continuing efforts to coordinate the increasingly varied economic development resources available in state government. Like many other states, Montana has developed a diverse range of programmatic and technical resources within state

government to pursue economic development. However, these resources have been distributed widely among different agencies and organizations. Two issues have become more important as these developments have progressed:

1. Government has resources, but there is continuing uncertainty over whether or not these resources are being coordinated effectively.
2. Traditional agency/department models may not be as effective in addressing complex inter-related economic policy issues, which cut across organizational boundaries.

A recurrent feature of Montana's economic development efforts has been attempts to build a state government function to coordinate economic development policy. In addition, economic development now involves addressing a range of policy issues beyond the boundaries of a single agency or department. Economic development programs and resources in Montana can be found in the Department of Commerce, the Department of Agriculture, the Department of Labor and Industry, and multiple organizational units within the university system. This does not include roles played by other state agencies (for example, the Department of Transportation), statewide elected officials, or the Legislature.

Re-establishing GOEO

GOEO was established to fulfill this policy coordinating role, but it is actually more appropriate to say the office was re-established for this purpose. The need for a policy coordinating function located in the Governor's Office was first suggested in 1976. The Governor created the Task Force on the Future Role of State Government in Economic Planning and Development. The task force issued a report in 1976 outlining the following course of action:

“An organization should be designed which has the authority and capacity to provide the leadership for economic development in Montana and coordinate the activities of state-funded programs related to economic planning, research and development.”

Chapter I – Introduction & Background

Today, nearly thirty years later, the Legislature once again finds itself addressing many of the same questions in relation to economic development.

Audit Scope

Audit scope was determined, primarily, by referencing HB 2. Our audit scope encompassed review of the office's strategic planning process, assessment of GOEO operational activities linked to the plan and to other statutorily defined duties, and evaluation of the overall efficiency and effectiveness of the office and position within Montana's economic development organizational structure.

Audit Objectives

Based on our determination of audit scope, we developed three major audit objectives. These objectives and related sub-objectives are outlined below:

1. Determine if GOEO has developed a useful strategic economic development plan (the Roadmap for a New Economy).
 - ▶ Did GOEO plan development procedures allow for input from all interested parties and were they comparable with other states?
 - ▶ Are Roadmap policy initiatives reasonable when compared with examples from other states and other case studies or academic literature?
 - ▶ Are Roadmap performance measurement procedures, realistic and likely to contribute towards attainment of GOEO goals and objectives?
2. Determine how GOEO activities and accomplishments contribute towards successful implementation of the Roadmap and the achievement of the office's broader statutory mission and purpose.
 - ▶ What are the main activities conducted by GOEO staff and how are these activities related to Roadmap initiatives?
 - ▶ What additional activities unrelated to Roadmap initiatives does GOEO perform and are they compatible with the office's overall goals and objectives?

Chapter I – Introduction & Background

- ▶ What are the strengths and weaknesses of GOEO working relationships with other state agencies and with private sector organizations?
 - ▶ Are GOEO activities comparable with economic development functions in other states?
3. Assess the overall value of GOEO as the strategic planning component of Montana's economic development efforts.
- ▶ How does statute apportion economic development duties responsibilities between GOEO and other state agencies?
 - ▶ How does Montana's economic development organizational structure compare with other states?
 - ▶ What resources are available to GOEO, how has resource availability changed over time, and how has this affected GOEO activities?
 - ▶ Are resources available to GOEO comparable with similar economic development functions in other states?

Audit Approach

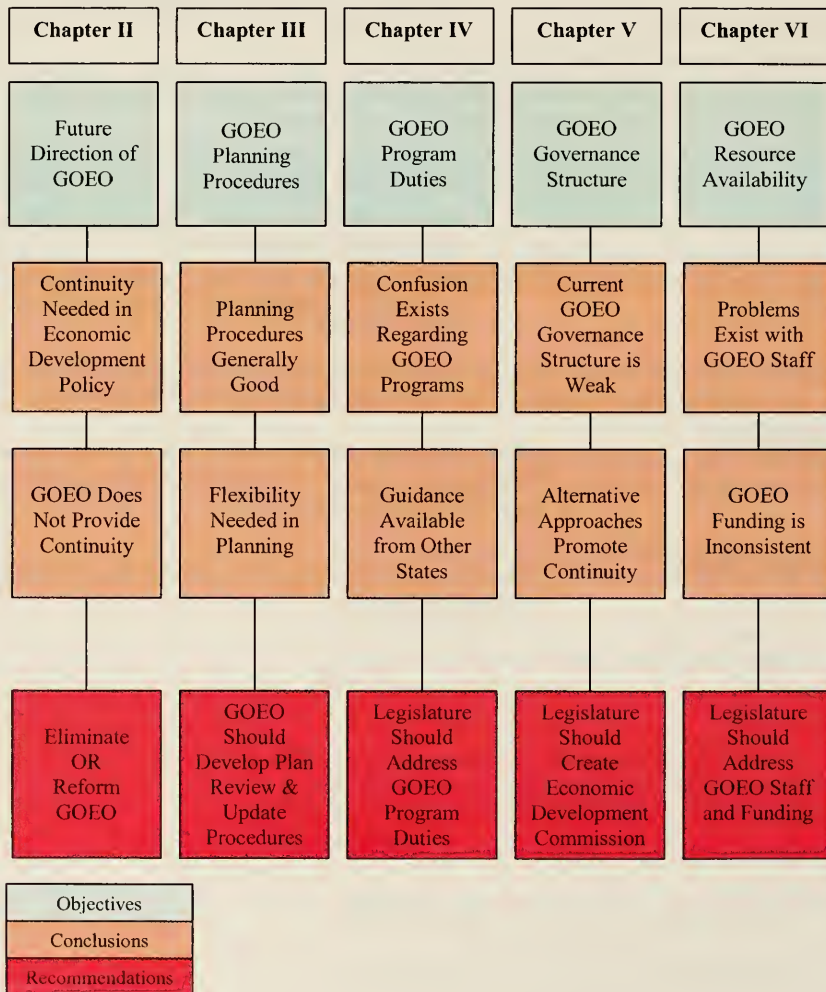
Further information on audit scope and scope exclusions, and specific methodologies related to objectives, and areas for further study are contained in Appendix A.

Report Organization

The organization of remaining chapters of this report is illustrated in the following figure:

Chapter I – Introduction & Background

Figure 1
Report Organization Overview



Chapter II - Future Direction of GOEO

Introduction

GOEO has now been in existence for approximately three years. During this time the office has been responsible for developing a strategic economic development plan, pursuing policy initiatives outlined in the plan, and conducting other activities assigned in statute or considered necessary by the Governor or the Legislature. The central issue addressed in this chapter is whether GOEO is making a difference. Have GOEO activities contributed towards improving the state's economy?

What is Economic Development?

There is no consensus opinion regarding the extent to which government should or can effect changes in the economy. Even presuming there is an appropriate role for government in developing the economy, it is still unlikely you can reach agreement on how best to go about doing this. Regardless of these debates, we can say with certainty that government always has and probably always will take actions designed to improve the economy. The range of possible actions covers a wide range of both economic and non-economic policy areas, but all are eventually labeled as being some form of economic development.

Unsurprisingly, a generally accepted definition of economic development is also difficult to identify. Competing viewpoints on economic development are based on fundamentally different interpretations of the role of government in relation to the economy and the impacts of government action on the private sector. The United States Department of Commerce Economic Development Administration (EDA) defines the terms as follows:

“Economic development is fundamentally about enhancing the factors of productive capacity - land, labor, capital, and technology - of a national, state or local economy. By using its resources and powers to reduce the risks and costs which could prohibit investment, the public sector often has been responsible for setting the stage for employment-generating investment by the private sector.”

Chapter II - Future Direction of GOEO

Although this definition is unlikely to meet with universal approval, it does emphasize one important point raised in many economic development discussions; government's role should be in 'setting the stage' or creating the environment. Economic development occurs in and is driven by the private sector.

Evaluating GOEO Activities and Accomplishments

The most important factor to take into account in an assessment of GOEO activities is the functional role of the office. GOEO is primarily a policy office and its main responsibilities relate to formulating economic development policy through planning and coordination of policy proposals across government. The office's programmatic responsibilities are limited in nature.

Methodological Difficulties in Assessing Policy Functions

Limited programmatic functions present several problems in assessing GOEO activities. Some of these are general difficulties relating to the subjectivity involved in determining qualitative value of economic development policy functions. Others are specific to the current situation and circumstances GOEO operates under. The following sections discuss three important issues involved in assessment of GOEO policy functions.

Nature of the Policy Function

Programmatic functions in government involve administrative procedures and delivery of defined services. Quantitative data usually exists to demonstrate success or failure as defined by statutory or rule-based criteria. For policy functions, outcomes cannot always be linked to specific activities. For example, GOEO staff are assigned to boards, commissions and committees in state government dealing with various economic development issues. People involved in these efforts generally confirmed the value of GOEO participation, but it is still difficult to determine whether any successes, or failures, should be attributable to GOEO actions.

Long-Term Focus of Policy Functions

Policy functions should generally be expected to deliver results over the medium to long-term. GOEO has established long-term performance targets to reflect this reality. The first targets established are for 2007 and successful implementation of GOEO initiatives is not envisioned until 2012. This approach is not unique

to GOEO; most other state strategic planning functions use extended timelines. GOEO has only been operational for three years and the Roadmap plan was not adopted until late 2002. It is neither possible nor equitable to expect the office to defend long-term policy initiatives on the basis of short-term outcomes.

Resource Availability

Where GOEO is assigned programmatic functions, resource availability affects any determination regarding the office's performance. For both the workforce training and marketing and business recruitment functions, GOEO could have demonstrated program outcomes over the short-term. However, staff shortages and funding cuts have adversely affected the office's ability to deliver these programs effectively. Since 2001, the office's funding has been cut significantly and it operates with three of the original seven FTE assigned by statute. Availability of sufficient resources is a prerequisite to implementing effective programs.

The History of Economic Development Policy in Montana

Conventional approaches have limitations when dealing with GOEO policy functions. The effectiveness of GOEO needs to be assessed from an alternative perspective, to address progress in the state's overall economic development policy and planning functions. An important part of this assessment includes reviewing the office's activities and accomplishments in the context of Montana's previous statewide economic development planning and policy coordination efforts. The role of GOEO leading the state's economic development policy formulation and coordination is not without precedence. Neither is the strategic planning function a novelty for Montana state government. The following sections review economic development policy and planning efforts in Montana over the past three decades.

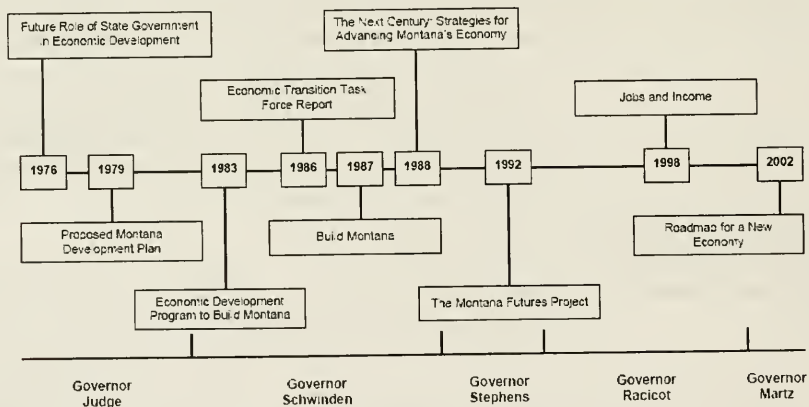
Montana Has Produced Multiple Strategic Plans

Review of state archives shows no shortage of strategic economic development plans. Since 1976, we identified nine significant strategic planning documents or proposals presented to five different administrations. These plans differ in structure and emphasis, but all share the goal of shaping state policy to promote economic growth. The following figure shows titles and publication dates for identified

Chapter II - Future Direction of GOEO

plans. It should be noted that this selection represents only high-profile planning efforts, which were statewide in focus and addressed government economic development functions. It does not include plans proposed by entities outside of state government.

Figure 2
Timeline for Montana Economic Development Policy and Planning Initiatives
1976 – 2002



Source: Compiled by the Legislative Audit Division from state archives.

On average, Montana has produced a new plan every three years. The plans we reviewed contained around 180 different recommendations addressing approximately 40 distinct policy issues over 375 pages of text.

Perpetual Planning and Policy Continuity in Economic Development

Strategic planning requires a degree of flexibility and should be viewed as an ongoing process involving continuous review. Continuous planning should involve long-term focus on policy issues and continuity between various phases of the process. Decisions to change direction or re-focus policy should be based on objective assessment of available performance measurements. Perpetual planning, by contrast,

involves limited continuity between different phases and a tendency to adopt short-term policy perspectives. Major changes in policy focus or direction are made without reference to available performance measurement criteria.

For much of the past three decades Montana appears to have been stuck in perpetual planning mode. The number and variety of different policy issues addressed in various plans demonstrates the lack of continuity in the process. Even though several similar policy issues have emerged erratically over the years, there has never been a long-term commitment to pursuing solutions or tracking progress.

Promoting Continuity in Economic Development Policy

The steady decline in Montana's economic position relative to other states can be attributed to a wide range of factors. Some of these factors are national or global in scale and beyond the control of state policy makers. The effectiveness of state economic development policy is one factor within the control of Montana's policy makers, but it is difficult to determine its relative importance. It may not be possible to determine if a more coherent approach to economic development policy and planning could have made a difference to this state's economic performance. However, given the decline in Montana's economic fortunes, we can say that previous actions have not achieved their objectives.

The Role of GOEO in Economic Development Policy

If GOEO is to lead the state's economic development policy coordination and planning efforts, there must be some assurance that the office can provide continuity and long-term focus on issues. Audit work, including interviews with many economic development practitioners, has shown there is no assurance the office can provide long-term continuity in its current form. The current structure for state economic development functions does not provide an opportunity to break free from the perpetual planning mode. Equally, there is no evidence suggesting continuing along the present track will result in definable harm. The opportunity cost associated with funding an executive-level policy office is minimal compared with some of the state's other economic development commitments.

Chapter II - Future Direction of GOEO

Conclusion: Current GOEO Structure Does Not Provide Continuity

Legislature Should Determine the Future of GOEO

Montana's public policy makers, including the Legislature, face a choice in relation to the future of GOEO. Continuing with the current structure risks, at the very least, wasting time and resources in the development of plans and policy initiatives with minimal long-term impacts. In these circumstances, eliminating the office may be preferable to continuing to devote resources to activities with limited long-term benefits. The alternative is to develop GOEO as a mechanism for promoting continuity and stability in the state's economic development policy and planning function.

Recommendation #1

We recommend the Legislature determine the future direction of the state's economic development functions by either:

- A. Eliminating the Governor's Office of Economic Opportunity and transferring functions to another department; OR**
- B. Pursuing changes in the office's role, structure and resources to promote long-term continuity.**

Subsequent Chapters Provide Guidance for Reforming GOEO

Should the Legislature decide to maintain GOEO and pursue changes to promote long-term continuity, the following chapters discuss potential means of achieving this by addressing the following issues:

- 1) Improve strategic planning** –addressing procedures for regularly reviewing and updating the state's strategic economic development plan.
- 2) Define GOEO Programmatic Duties** – determining which programmatic responsibilities should be assigned to GOEO.
- 3) Restructure GOEO Governance Structure** – restructuring the governance structure of GOEO to increase accountability and promote continuity and long-term stability in state economic development functions.

Chapter II - Future Direction of GOEO

- 4) **Determine GOEO Resource Needs** – determining what level of resources (human and financial) should be committed to GOEO activities.

Chapter III – Economic Development Planning

Introduction

One of the primary statutory duties assigned to the Chief Business Officer is the development and distribution of a strategic economic development plan. This was one of the first tasks GOEO addressed following its formation and at the end of 2002 the office released a strategic plan titled “Roadmap for a New Economy”. The Roadmap plan was the culmination of a year-long planning effort involving consultations with state agency staff, staff in the university system, private economic development organizations, and members of the public.

Strategic Planning and Economic Development

Strategic planning for economic development has become an increasingly prevalent approach among state governments. The majority of state governments now engage in some form of strategic planning for economic development. In general, the strategic planning process involves plan development (consultation with internal and external stakeholders), policy formulation and prioritization (using input to develop the plan), and plan implementation and monitoring (putting the plan into action and tracking progress). The following sections address findings and recommendations relating to these aspects of the planning process.

Plan Development Process

Successful strategic planning depends on the procedures used to gather information and input. Planners can access a variety of sources to find this information. Internally, historical data, previous planning efforts, and staff expertise are all important sources. Externally, experiences of other agencies or states, best practice guidance from the federal government, and input from the public all provide valuable direction to strategic planning. Our review of GOEO planning procedures focused on how well the office made use of these resources.

Chapter III – Economic Development Planning

Elements for Successful Strategic Planning

Review of best practice guidance and examples from other state agencies identified the following elements necessary for successful strategic planning:

Table 1
Elements for Successful Strategic Economic Development Planning

Research & Analysis	Planning begins with assessment of the economy's strengths and weaknesses. This process should involve building teams or obtaining the services of people with appropriate expertise.
Leadership	Forming a leadership group helps provide direction, input and broader perspectives for planning. Suggested mechanisms include an appointed commission or advisory council.
Collaboration & Outreach	Planning involves input from a diverse range of stakeholders. The process for obtaining input should be as inclusive as possible and should emphasize regional perspectives and community involvement.
Integrated Planning	Planners need to be aware of strategic planning efforts in other agencies. Successful economic development planning integrates and coordinates with related public policy areas.
Private Sector Involvement	Actively engaging private sector businesses and organizations is especially important in strategic planning for economic development.

Source: Compiled by the Legislative Audit Division from review of planning best practices and other Montana strategic plans.

GEOE Planning Process Included Required Elements

We compiled the following information on GEOE plan development procedures:

- ▶ **Research and Analysis** – GEOE hired staff with appropriate expertise and conducted extensive analysis of economic development issues in other states and previous policy initiatives in Montana. The office also contracted with a consultancy group

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experienced in regional economic development analysis to study the state's key business sectors.

- ▶ **Leadership** – an advisory council was formed to provide direction and oversight for GOEO during plan development. The seven-member advisory council included representatives of private sector businesses, organized labor, and the university system.
- ▶ **Collaboration and Outreach** – GOEO conducted a series of 15 public meetings held in multiple locations around the state. These public 'listening sessions' allowed for comment and discussion on the development of policy initiatives.
- ▶ **Integrated Planning** – the development process largely avoided duplicating planning efforts in other state agencies. GOEO worked closely with staff in agencies with overlapping areas of responsibility to ensure the development of the Roadmap did not duplicate efforts.
- ▶ **Private Sector Involvement** – the GOEO planning process involved extensive contacts with representatives of private sector businesses and organizations through the advisory council and both formal and informal meetings.

Overall, the planning process used in developing the Roadmap plan met accepted standards and was comparable with strategic planning efforts in other state agencies. The process used in developing the Roadmap plan ensured opportunities were available for public comment.

Conclusion: GOEO Planning Procedures Met Accepted Standards

Roadmap Policy Initiatives

In a public policy area as wide-ranging as economic development, planning will always produce more ideas than can be addressed in a single document. The planners' next task is to prioritize policy initiatives for action. In theory, successful efforts to gather information and input should result in a plan reflecting the policy priorities of the state as a whole. Policy initiatives should, therefore, reflect the economic circumstances of individual states. This makes comparative analysis of different states' plans difficult, but there are

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enough shared features to allow for some evaluation of state plan policy initiatives.

What Policy Initiatives Does the Roadmap Address?

The six policy initiatives outlined in the Roadmap plan cover a variety of issues. Some initiatives are recognizable as traditional economic development issues, others are less conventional. The following briefly summarizes the Roadmap policy initiatives:

- ▶ **Industry Clusters** – this initiative focuses on promoting and developing the state’s industry clusters. Clusters are groups of inter-related businesses and institutions concentrated in a definable geographic area. Public policy geared towards organizing and developing clusters can help promote job and earnings growth.
- ▶ **Workforce** – business expansion and location decisions are increasingly determined by availability of a well-educated workforce and access to workforce training resources. The workforce initiative seeks to increase skill levels of Montana workers through improvements in workforce training programs.
- ▶ **Technology** – promoting technological innovation is another method used to increase productivity and drive economic growth. State government can encourage technology innovation through the promotion of industry clusters (where businesses tend to innovate more readily), and through development of the university system’s research and commercialization capacity.
- ▶ **Government Organization** – ensuring state government is responsive to business needs can support growth in the private sector. The organization initiative addresses changes in government economic development programs.
- ▶ **Business Climate** – attracting and retaining businesses depends, to some extent, on tax and regulatory policies. The Roadmap addresses changes designed to ensure Montana is competitive with surrounding states, including increasing access to public and private capital, and promoting private sector involvement in regulatory reform.
- ▶ **Attraction** – attracting expanding or relocating businesses from other states or countries can provide immediate economic benefits. The attraction initiative focuses on building a marketing and business recruitment strategy based on the state’s industry clusters.

Comparing Roadmap Policy Initiatives with Other States

State economic development policy has undergone several stages of development over the last few decades. An expansion in available

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strategies means state policy initiatives are now less likely to resemble each other. There is no single ‘blueprint’ for state economic development policy and there is no one standard to judge the Montana Roadmap against. However, comparing the plan with other states can indicate if the proposed strategies are similar in the broader context of other states’ economic development policies.

We reviewed strategic economic development plans for eight western states. Using this information, we identified 25 different policy initiatives states typically choose from when developing economic development plans. The following table lists the policy initiatives, shows whether or not Montana’s Roadmap plan addresses a specific area, and the percentage of other states pursuing similar initiatives:

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Table 2
Economic Development Issue Areas & Policy Initiatives

<u>Issue Area</u>	<u>Identified Policy Initiatives</u>	<u>Roadmap</u>	<u>Other States</u>
Government	Federal Government / Public Land / Military	No	63 %
	Tax & Regulatory Reform	Yes	50 %
	State Government Organization / Efficiency	Yes	50 %
	Regional Program Service Delivery	Yes	50 %
Business Technical Assistance	Export / International Trade Promotion	No	75 %
	Agriculture / Natural Resource Development	No	75 %
	Rural Development	No	75 %
	Industry Cluster Development	Yes	63 %
	Small Business Services	No	63 %
	General Business Assistance / Expansion	Yes	50 %
	Capital Access / Venture Capital	Yes	38 %
Education & Training	Higher Education - College / University	Yes	88 %
	Workforce Development / Training	Yes	75 %
	Education K-12	No	50 %
Infrastructure Development	Physical Infrastructure Programs	No	88 %
	Transportation Systems	No	63 %
	Energy Supply Issues	No	25 %
Marketing	State Promotion / Trade Shows	Yes	50 %
	Business Attraction / Recruitment	Yes	38 %
Non-Business Impacts	Quality of Life	No	50 %
	Equity / Sustainable Development	No	38 %
	Social Services / Health Care	No	25 %
Technology	Technology Transfer / R&D	Yes	88 %
	Telecommunications / Broadband Access	No	63 %
Tourism	Tourism Development / Film Promotion	No	63 %

Note – Identified policy initiative categories reflect broad groupings of activities and may not reflect specific details or wording included in state plans. State plans from Idaho, Wyoming, South Dakota, Utah, Washington, Oregon, Arizona and New Mexico were reviewed.

Source: Compiled by the Legislative Audit Division from review of state strategic economic development plans.

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In the context of state economic development planning, the Roadmap policy initiatives are representative of general public policy trends. Review of other state plans shows the Roadmap addresses a more limited range of policy initiatives than are normally included in state economic development plans. The majority of other states choose to include a wider variety of policy initiatives. Another feature highlighted by the comparison is that all the policy initiatives proposed in the Roadmap are currently being pursued in other states.

Roadmap Focuses on Policy

Discussions with GOEO staff indicated the decision to limit the number of policy initiatives was intended to focus the plan on issues where realistic change could be pursued. Rather than trying to pursue a diversity of policy issues, ranging from K-12 education to telecommunications infrastructure, the Roadmap was developed to concentrate on core economic development issues within the office's area of responsibility. It was also important the plan did not duplicate planning efforts being conducted elsewhere in state government. For example, although many state economic development plans address tourism promotion, Montana's Department of Commerce already has an established strategic planning process in this policy area.

Stakeholders Appreciate the Roadmap Policy Focus

Our discussions with agency staff, university system staff, and people in the private sector involved in economic development issues generally confirmed a positive view of the Roadmap's policy focus. None of the individuals we contacted identified any significant policy or issue areas missing from the plan. The general consensus among stakeholders appears to be that the Roadmap is focused on appropriate policies and achieves a good balance between different issues areas. Another positive feature identified by agency staff is the lack of specific technical direction in relation to program administration and management. They noted a tendency of some strategic plans to micro-manage programmatic activities. The Roadmap plan produced by GOEO addresses a limited number of policy issues, but the initiatives are all readily identifiable as standard practice in state economic development. The decision to focus on certain core policy initiatives and avoid duplicating existing

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efforts has met with approval among stakeholders. The policy initiatives addressed in the Roadmap plan are reasonable and appropriate in the context of the theory and current practice of state economic development policy.

Conclusion: Roadmap Policy Initiatives are Reasonable When Compared With Other States

Roadmap Plan Performance Measurement Procedures

Performance measurement is defined by the federal Government Accountability Office (GAO) as “the process of developing measurable indicators that can be systematically tracked to assess progress made in achieving predetermined goals and using such indicators to assess progress in achieving these goals.” GOEO has included performance measurement procedures for the Roadmap policy initiatives. The final part of our review of the Roadmap involved an assessment of the plan’s performance measurement procedures to determine if they are reasonable, realistic and likely to contribute towards the successful attainment of GOEO goals and objectives.

How Does GOEO Use Performance Measurement?

GOEO has developed a performance measurement system designed to assess progress in achieving goals outlined in the Roadmap. For each of the six policy initiatives, the office has identified a series of benchmarks. A benchmark is a measurement or standard that serves as a point of reference by which process performance is measured. For each identified measurement, GOEO outlines baseline data (for 2002 or 2003), and medium and long-term performance targets at five and ten year intervals (2007 and 2012). The Roadmap uses a total of 33 different performance measurements linked to the six policy initiatives. Additionally, the plan identifies six “macro-level benchmarks” designed to measure the combined impact of policy initiatives on the overall economy of the state. To determine if the Roadmap measurements are appropriate to the office’s activities, we compared Roadmap performance measurements to the measurements or metrics used in other states and by public policy research organizations. This review showed GOEO performance

measurements are, for the most part, appropriate and relevant to the office's activities.

Comparative Analysis of GOEO Performance Measures

Another method for assessing the value of the performance measurement system used by GOEO is to compare procedures with other states, and with best practice guidance and other relevant studies. Our review addressed the degree of similarity between GOEO performance metrics and other identified examples. Specifically, review included a selection of performance measurement systems used in economic development plans from nine other states. We also included information from best practice guidance provided by the EDA, the National Governor's Association, the International Economic Development Council, and various universities and public policy research organizations. The following table shows the 30 metrics most frequently used to track performance in state economic development.

Table 3
Top 30 Performance Measurements for Economic Development

<u>Rank</u>	<u>Measurement Description</u>	<u>Roadmap</u>
1	Federal Research & Development Expenditures	Yes
2	Industry Research & Development Expenditures	Yes
3	Academic Research & Development Expenditures	Yes
4	Patents Issued	Yes
5	New Business Starts	Yes
6	Venture Capital Investments	Yes
7	Unemployment/Underemployment	Yes
8	Percentage Goods Exported	Yes
9	Small Business Innovation Research (SBIR) Awards	Yes
10	Employment Paying Excess of State Average	Yes
11	Employment Growth in Industry Clusters	Yes
12	Number of Businesses in Industry Clusters	No
13	Foreign Direct Investment	No
14	Percentage of Population with Bachelor's Degree	Yes
15	Percentage of Population with Science/Engineering Degree	No
16	Retention of Science/Engineering Graduates	No
17	University Collaboration with Technology Businesses	Yes
18	Initial Public Offerings	Yes
19	Licensing of University Research	No
20	Fast Growth/Gazelle Companies	No
21	Per Capita Income Rank	Yes
22	K-12 Education / High School Graduation	No
23	Increase in Hi-Tech Firms/Employment	Yes
24	University Research Human Resources	No
25	University Spin-off Companies	No
26	Diversification in Manufacturing Employment	Yes
27	Gross State Product	No
28	Poverty Rate	No
29	Total Employment	No
30	Number of Industry Cluster Organizations	Yes

Source: Compiled by the Legislative Audit Division from review of state strategic plan performance measurement procedures.

In total, our review identified approximately 75 performance metrics used by other states or recommended for use in best practice guidance. For practical purposes, it is not necessary or desirable to use all metrics. The GOEO Roadmap uses around 40 percent of the identified metrics and the table shows that the Roadmap includes all of the performance metrics in the top 10 from our sample. Only one of the other states included in our review used a wider range of metrics than Montana. By these standards, the overall performance measurement system developed by GOEO conforms with national standards in terms of the type and range of performance metrics used.

Analysis of Data Sources and Targets

The final part of analyzing the GOEO performance measurement system was determining if the Roadmap plan used correctly sourced data and if the process established reasonable performance targets. In general, the Roadmap uses metrics recognized as national standards and the data is sourced either from the federal government, Montana state agencies, or established and reputable private research organizations. Overall, the quality and accuracy of the data used in the Roadmap meets accepted standards.

Evaluating the targets established as part of the process is more difficult. Past performance is not always a good predictor of future trends and establishing targets is more of an art than a science. However, the procedures used by GOEO in establishing targets appear to have involved more than guess work. Analysis of data shows the majority of targets are within an acceptable range. Additionally, we discussed the targets with state agency and university staff, and experts in the private sector and the majority expressed the opinion that they were appropriate and realistic.

The performance measurement system developed by GOEO in the Roadmap plan can provide an effective means of monitoring progress towards the office's goals. GOEO has identified metrics appropriate to the policy functions assigned to the office. The type and range of metrics used conform to national standards for economic development policy and the data sources and targets are

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appropriate. Used effectively, the performance measures established in the Roadmap provide an opportunity to hold GOEO accountable for results of the policy initiatives.

Conclusion: Performance Measurement Procedures are Sound

Flexibility Needed in Strategic Planning

Most best practice guidance, examples from other states, and concurrent strategic planning efforts in other Montana state agencies suggest an integral part of the planning process is periodic review and update of plan contents. Discussions with GOEO staff have also indicated there is an awareness of the necessity to revisit the plan periodically, assess progress, and consider changes. However, there are currently no formal procedures in place to provide guidance on how the Roadmap will be reviewed and updated. Without a formalized process for periodically reassessing the status of policy initiatives, the Roadmap could lose relevance as changing circumstances impact specific issue areas.

Improving GOEO Performance Measurement

Review of the Roadmap performance measures did identify some improvements which could strengthen the system and provide greater assurance that progress is being monitored effectively. The following sections address some adjustments GOEO could consider making to the performance measurement system:

- ▶ **Foreign Direct Investment** – tracking Foreign Direct Investment (FDI) growth could provide an additional measure of activity in industry clusters. Per capita FDI is used by several other states as an additional measure for export-oriented businesses.
- ▶ **Workforce** – the Roadmap benchmarks the implementation of recommendations made by a taskforce studying the 2-year college system. GOEO staff have indicated the work of the taskforce has been superseded by new initiatives involving the university system. Performance measures should be updated to reflect changes.
- ▶ **Technology in the University System** – additional metrics could be used to track technology capacity in the university system. Tracking the number of licenses issued for the commercialization of university research could be used in conjunction with existing measurement of collaborative projects.

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Measurement of human resource availability for technological innovation in universities is also common in other states. This metric would reflect growth in science and engineering programs.

- ▶ **Data Presentation for Technology Metrics** – in line with best practices, both Small Business Innovation Research Awards and patents issued should be calculated on a per 100,000 (population) basis. Additionally, the metric for venture capital investment shows the baseline at zero. For the period prior to the baseline, current data shows the 5-year annual average for venture capital investments in Montana to be around \$12 million. The plan should be updated to reflect current data.
- ▶ **Business Starts** – the Roadmap benchmarks business starts under the technology initiative. This metric may be too broad to reflect growth in technologically innovative businesses. An alternative used in many state technology indices is increase in fast growth or ‘gazelle’ companies, which typically operate in hi-tech business sectors.
- ▶ **Business Climate** – the Roadmap uses the Small Business Survival Index (SBSI) to benchmark improvements in business climate. The index aggregates data on tax levels and regulatory conditions for all 50 states. The SBSI may be a useful indicator of differences in state tax structures, but it does not reflect other policy issues addressed in the business climate initiative. GOEO could consider using the Corporation for Enterprise Development’s business vitality ranking as a supplementary tool to reflect factors beyond the tax and regulatory environment. Additional metrics could also be considered, including new business starts, business churn rates (business openings and closures), or net in/out-migration trends.
- ▶ **Business Attraction/Recruitment** – the Roadmap’s current benchmarking for the attraction initiative relies mainly on process or output metrics measuring levels of activity, rather than results. Guidance from the International Economic Development Council and the EDA suggests performance in business attraction functions should be monitored using outcome-focused metrics. Prior to implementation of this initiative, GOEO could identify and develop metrics focusing on measurable outcomes and, particularly, customer satisfaction levels.

GOEO Should Develop Plan Update Procedures

As part of the ongoing development of the office’s strategic planning role, GOEO should develop and adopt formal review and update procedures for the Roadmap plan. These procedures should address

Chapter III – Economic Development Planning

development of an update timetable, identification of major changes affecting policy initiatives, technical analysis of new policy issues, review of performance measurement benchmarks, obtaining input from the public, and reporting requirements. Making these changes could help strengthen the credibility of the planning process among stakeholders and improve the general effectiveness of GOEO operations. They also highlight the central importance of stability and continuity for state economic development functions.

Recommendation #2

We recommend the Governor's Office of Economic Opportunity develop formal procedures addressing periodic review and update of the statewide strategic economic development plan required under section 2-15-219 (3), MCA.

Chapter IV – Assigning GOEO Programmatic Duties

Introduction

Establishing effective state economic development functions should include determining which programmatic functions are assigned to GOEO. This chapter addresses the continuing uncertainty over the office's assigned role and responsibilities. Clarifying the office's role in administering programs is possible through analysis of organizational approaches in other states.

Confusion Exists Over GOEO Role

Discussions with GOEO staff, staff in other agencies and the university system, and individuals in the private sector suggest there is confusion over the purpose of GOEO. This confusion relates primarily to the office's responsibility for programmatic functions. Both policy and program functions can co-exist within GOEO, but the limited guidance available has created confusion. GOEO is assigned responsibility for two programs: state marketing and business recruitment, and administration of the Primary Sector Business Workforce Training Act. The following sections discuss apparent confusion over the office's role in relation to these two programs.

Marketing and Business Recruitment

Statute assigns GOEO the task of business retention and recruitment and section 2-15-219 (2), MCA, requires the Chief Business Officer "lead the state's business recruitment, retention, and expansion efforts." Business recruitment as defined by the International Economic Development Council generally includes the development of marketing functions. In 2001, the fifty-sixth Legislature established a statutory appropriation to fund GOEO recruitment efforts. An annual appropriation of \$350,000 was provided from coal severance tax permanent fund interest income. In 2002, just under a year after GOEO was established, the fifty-seventh Legislature reduced the appropriation by half to \$175,000 annually. Six months later, the fifty-eighth Legislature eliminated funding for business retention and recruitment.

GOEO now operates a passive recruitment program (the office assists local communities with recruitment and coordinates a statewide response to inquiries from companies considering Montana as a location). GOEO

Chapter IV - Assigning GOEO Programmatic Duties

staff, staff in other agencies, and representatives of local economic development organizations expressed frustration over the status of the business recruitment program. Statute requires GOEO to pursue this function and the original appropriation suggested the Legislature envisioned an active recruitment effort. Following changes in funding, it is unclear how this function should be pursued by GOEO, or whether the Legislature wants the office to perform this role.

Workforce Training Act

In 2003, the Legislature passed HB 564, the Primary Sector Business Workforce Training Act. This act established a grant program for primary sector businesses to train new employees. Grants are repaid through tax increment financing (tax revenues generated by new jobs are used to repay loans). GOEO was authorized to borrow up to \$10 million from the Board of Investments to fund the program. The office administers the program through a grant application and review process. The main concern in relation to this program is that existing structures within state government already perform workforce-training functions. GOEO staff and staff in other agencies have expressed confusion over the assignment of this function to GOEO. Both the Department of Labor and Industry and the Department of Commerce have expertise and resources in administering workforce training grant programs.

How do Other States Divide Responsibilities?

Questions over the role of GOEO relate to both the type and range of programs assigned to the office. Some general guidelines can be identified by looking at how other states approach this issue. The experience of other states is addressed in the following section.

Economic Development Functions in Other States

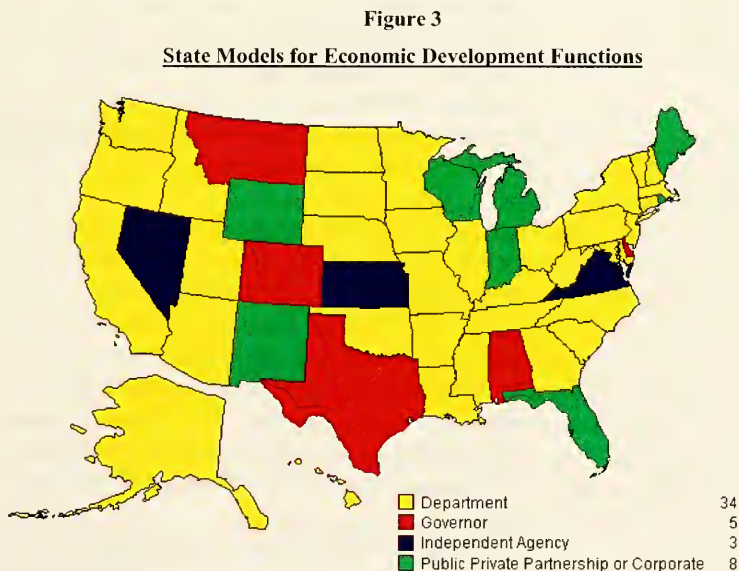
The variety in state economic development policies is mirrored by the diversity in functional models used around the country. There is no standard model for economic development functions in state government and every state displays some unique characteristic. We reviewed economic development structures in all 50 states and identified the following four broad categories:

- ▶ **Department** – the most common model based on a traditional government department structure. Other organizations may have a limited role, but the department is responsible for most significant economic development functions.

Chapter IV - Assigning GOEO Programmatic Duties

- ▶ **Governor** – either all or a limited number of significant functions are transferred to the Governor’s office. Sometimes, as in Montana, a department retains many programmatic functions.
- ▶ **Independent Agency** – a limited number of functions are transferred to an independent agency, separate from an existing departmental unit. Each organizational unit has responsibilities in different areas, but work in conjunction with each other.
- ▶ **Public Private Partnership (PPP) or Corporate** – either all operations or a number of significant functions are transferred to a PPP or corporate entity, sometimes existing entirely outside of state government. Some functions may be retained within the departmental structure.

The following figure shows the distribution of different functional models being used by states:



Note – Florida also has an economic development function attached to the Governor’s office, but the majority of operations are performed by Enterprise Florida inc. (public private partnership.)

Source: Compiled by the Legislative Audit Division from statutes and descriptions of functional models in states.

Chapter IV - Assigning GOEO Programmatic Duties

States Moving Towards Dual Responsibility Models

Although the departmental model is still used most regularly, states have increasingly been moving some or all economic development functions into different structures. Choosing to transfer economic development functions involves either moving all operations outside of the departmental structure, or retaining some and maintaining a dual responsibility model. GOEO is an example of the dual responsibility approach; the Department of Commerce and other agencies have retained responsibility for programmatic functions and GOEO has taken over policy-focused functions and some limited programmatic responsibilities.

Assignment of Functions in Alternative Models

We reviewed functional responsibilities for 16 states using an alternative to the departmental model. Again, there was a lot of variety in specific organizational features. However, significant similarities emerged when this group is further divided to compare states using dual responsibility approaches and states transferring all functions outside of the departmental structure. States using a dual responsibility approach are more likely to transfer particular functions, including policy and planning, research and analysis, marketing, business recruitment, and international trade and export assistance.

Analysis of states using a similar approach to Montana's shows there are some broad guidelines for assigning program functions to GOEO. When programmatic functions are assigned to organizations like GOEO, two broad 'rules' are evident. Firstly, functions should benefit from improved external connections (for example, proximity to the state's chief executive can be valuable in the marketing and recruitment functions). Secondly, there should be an absence of alternative structures elsewhere in government (unless they benefit from improved external connections, programs should be administered in existing departments.)

Conclusion: Guidelines Exist for Assigning Programmatic Duties

Chapter IV - Assigning GOEO Programmatic Duties

Legislature Should Address the Programmatic Role of GOEO

How should this guidance be used in determining the appropriate role for GOEO? Although it is necessary to be careful in applying broad guidelines to unique circumstances, the approach outlined above can help address confusion over the office's role.

GOEO Role is Not Clear

Because GOEO has only been in existence for around three years, the office's role is still not clear. Original statutory guidance on the role of GOEO was limited and staff within the office have confirmed they received only general direction on their functional role. It should also be noted GOEO was established as part of a wider reorganization in Montana's economic development functions within the Department of Commerce. The full impact of this reorganization will not be known for some time and it should be expected that functions like those performed by GOEO will continue to evolve as the Legislature receives updated information. In particular, the Legislature should begin to make decisions regarding the marketing and recruitment functions, and the administration of the Workforce Training Act.

Marketing and Business Recruitment Needs Should be Determined

Montana currently has no active statewide marketing or business recruitment capability. Many other states devote resources to these functions, but this does not mean they are appropriate for every situation. There is widespread disagreement among economic development practitioners and academic experts on the efficacy and benefits of state marketing and recruitment efforts. Regardless of debates over these functions, a decision should be made to either commit GOEO to implementation or revise its statutory mission. If the Legislature determines Montana needs to pursue state marketing and business recruitment, the guidelines outlined in this chapter suggest GOEO is the suitable organizational location for these functions. Both marketing and business recruitment functions could benefit from proximity to the external connections available in the Governor's office.

Address Funding for Business Recruitment

If the Legislature makes a commitment to delivering a statewide marketing and business recruitment program, funding for these efforts should also be addressed. Evaluating resource needs for this function will only be possible through long-term monitoring of program results. For this reason, allocating funding to marketing and business recruitment

Chapter IV - Assigning GOEO Programmatic Duties

Identify Alternative Structures for Workforce Training Program Administration

should be linked with the development of objective performance measurement criteria focusing on verifiable program outcomes.

In relation to the other programmatic function assigned to GOEO, the Legislature should also reassess the current disposition of functions associated with the Primary Sector Business Workforce Training Act. As the number of available economic development tools continues to expand, state policy makers need to exercise caution in assigning them to different organizations. Administrative efficiency and resource availability should be principal concerns in these decisions. In the case of the Workforce Training Act, there are alternative structures in both the Department of Labor and Industry and the Department of Commerce.

Recommendation #3

We recommend the Legislature clarify the programmatic role of the Governor's Office of Economic Opportunity by:

- A. Determining the need for an active statewide marketing and business recruitment effort and funding requirements for the program.**
- B. Reassigning responsibility for functions associated with the Primary Sector Business Workforce Training Act.**

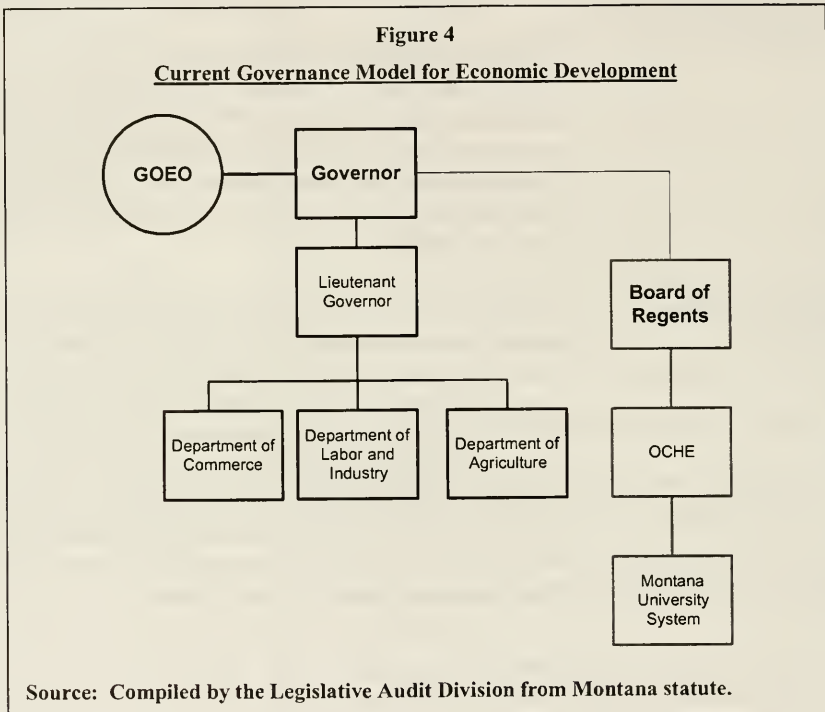
Chapter V – GOEO Governance Structure

Introduction

Various mechanisms exist to hold government organizations accountable for their actions, but the basis for all of them is organizational structure. The organization and relationships between different units establishes the governance structure within which agencies work. In this chapter, we evaluate the current governance structure for GOEO and suggest organizational changes to promote greater accountability, continuity, and long-term stability.

Current Governance Structure

State agency staff, staff in the university system, representatives of local economic development organizations and other individuals in the private sector have all identified some weaknesses in the current governance structure for state economic development functions. In relation to GOEO, many of the people we spoke with identified the weak governance structure as being at least partly responsible for some of the problems affecting the office. The following figure shows the current organizational model for Montana economic development functions. The positions and relationships between GOEO, executive branch agencies, and the university system are shown.



We believe the current structure presents several difficulties affecting the continuity and long-term stability of economic development functions performed by GOEO:

- ▶ **Isolation and Politicization** – GOEO is isolated within the executive branch. GOEO has been associated solely with the Governor's office. This has led to its functions being perceived as politicized and subject to partisan influence. Politicization of the office could decrease the chance of developing successful long-term policy initiatives.
- ▶ **Stakeholder Involvement** – there are insufficient opportunities for important stakeholders, including the Legislature and the university system, to provide input on an ongoing basis. Although GOEO has extensive informal links with different groups, these relationships are not formalized. Crucially, the Legislature has not been assigned a formal role and instead relies primarily on budgetary authority to exercise influence.

- ▶ **Oversight** – GOEO has established performance measurement procedures focusing on long-term outcomes, but nobody is formally responsible for evaluating progress over the long-term. Periodic changes in administration may result in significant changes in oversight procedures. Under these circumstances, effective monitoring of long-term progress is doubtful.

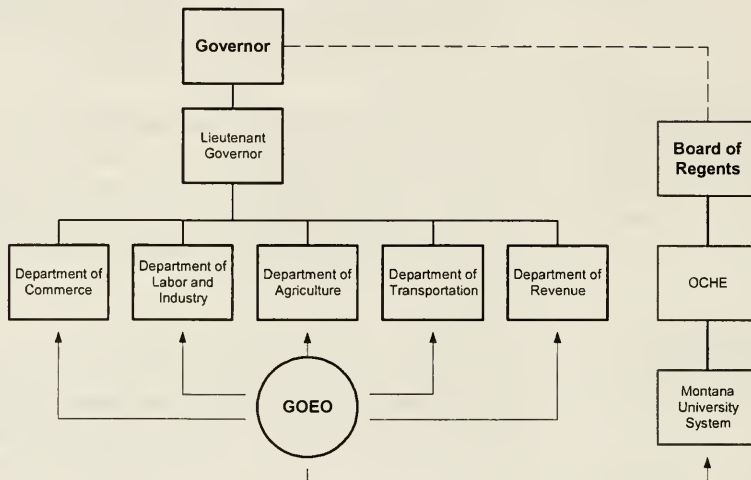
Alternative Approaches Could Promote Continuity and Stability

By reviewing alternative organizational approaches used for other policy and strategic planning functions in Montana and in other states, we can identify some potential changes in the governance structure for GOEO. The following sections outline three generalized models based on alternative organizational features identified for Montana and other states.

Departmental Model

The departmental model reverts back to an organizational structure previously used in Montana. Policy and programmatic functions currently assigned to GOEO would be moved within an existing department, rather than using a dual responsibility model. The office could remain intact as an organizational unit within the department and would be comparable to a bureau or division. The CBO could remain an appointed position (as is the Chief Information Officer within the Department of Administration), but staff would be permanent, classified state employees. This model is shown in the following figure.

Figure 5
Departmental Governance Model for Economic Development



Source: Compiled by the Legislative Audit Division from review of alternative models.

Department Model Does Not Reflect Policy Trends

Although still common around the country, recent trends suggest Montana has moved beyond this structure and there does not appear to be broad support for a return to the department model. The Legislature established GOEO, at least partly, because conventional departmental models no longer reflected the complexity of economic development functions in government. The ability to develop and coordinate policy across state government and deliver certain strategic programs could be compromised within the department model. This concern outweighs any potential gains in administrative efficiency or increased protection from politicization.

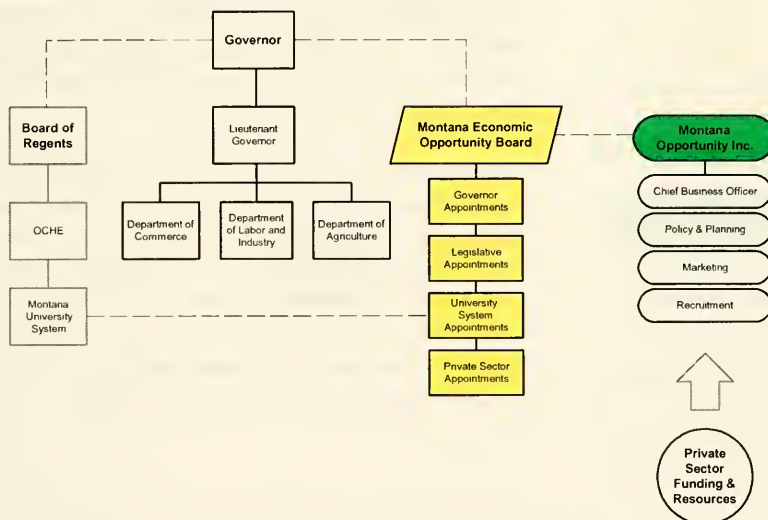
Corporate Model

The corporate model involves moving GOEO economic development functions into an organization outside of state government. The corporate model would retain the dual responsibility structure currently in place, but GOEO policy development and coordination, strategic planning, and marketing/business recruitment functions would be

Chapter V – GOEO Governance Structure

assigned to a private, independent not-for-profit corporation. Oversight of the corporation could be provided through a commission/board, with appointments made by the Governor, Legislature, university system, and private sector organizations. The CBO or executive director of the corporation could remain an appointed position, but staff would be employed by the corporation. A common approach in other states using this model is to allow for private sector resources to supplement state funding of the corporation. The corporate model is shown in the following figure:

Figure 6
Corporate Governance Model for Economic Development



Source: Compiled by the Legislative Audit Division from review of alternative models.

Corporate Model Requires Broader Revision of Economic Development Functions

The corporate model proposes a more radical realignment in state economic development functions. The corporate model is a relatively recent development and our review could not address the success or otherwise of these models in other states. However, when states switch to a corporate model, they tend to do so as part of broader realignment in

Chapter V – GOEO Governance Structure

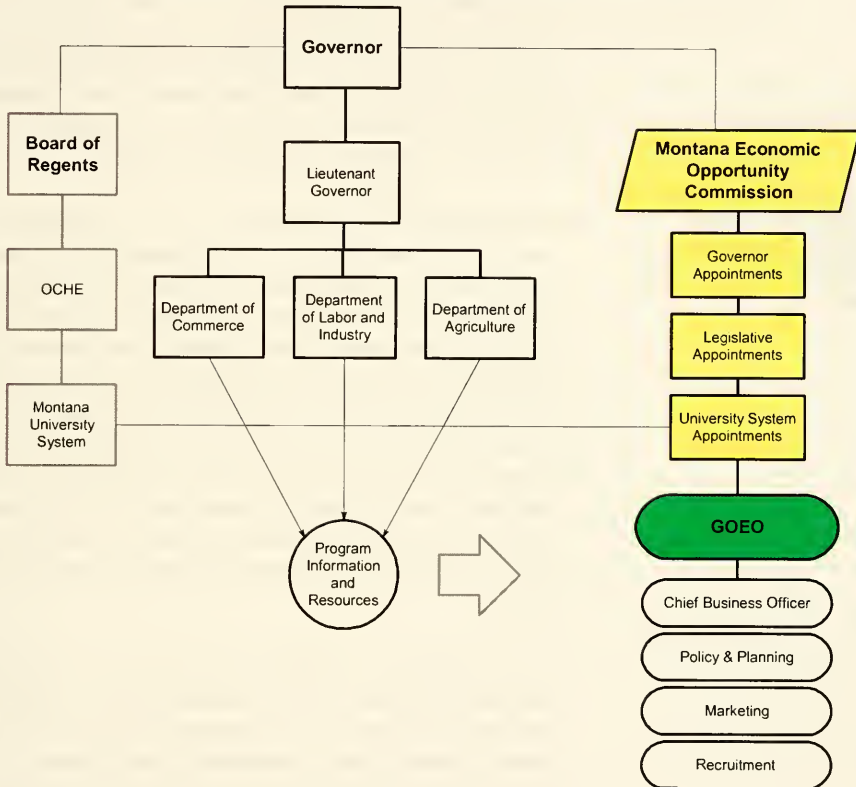
economic development functions. In some notable examples, the Wyoming Business Council, Rhode Island Economic Development Corporation, and Michigan Economic Development Corporation, establishing the corporate entity has resulted in either a complete transfer of functions to the private sector, or fundamental restructuring in the state's departmental structure. Based on the experiences of other states, moving Montana to a corporate model would entail significant restructuring within several state agencies.

Additionally, concerns over constitutional limitations on the independence and flexibility accorded to a corporate entity could significantly reduce the potential benefits offered by this model. Even if the corporation could be successfully established in the private sector, significant economic development functions would remain within the public sector. The corporation's ability to effectively coordinate these functions could be affected by the greater distance between public and private sectors envisioned under this model.

Commission Model

The commission model retains the current dual responsibility model, but with modifications in the office's reporting and oversight relationships. GOEO remains part of the Governor's Office, but a commission or board is introduced as a governing entity. The commission's membership would reflect a broad range of interests and could provide both oversight and an added input on policy development or program functions. The commission would employ a permanent staff and could choose to exempt these positions from classification as state employees.

Figure 7
Commission Governance Model for Economic Development



Source: Compiled by the Legislative Audit Division from review of alternative models.

Commission Model Offers Solutions Appropriate to Current Situation

Based on our review of economic development functions in other states and in Montana, we believe some version of the commission model provides the best prospect for resolving some concerns relating to GOEO. Given the few years GOEO has been operational, some additional time is required before definitive judgments can be made regarding the office's effectiveness. However, there are real concerns

Chapter V – GOEO Governance Structure

about the office's governance structure and the impact this has on the continuity and stability of the state's economic development policy coordination, strategic planning, and marketing/recruitment functions. The commission model offers the prospect of insulating GOEO from political pressure and stabilizing the office's functions through transitions in administration. Establishing the commission model would not necessarily involve significant realignments in other departments, and could be achieved with minimal impact on the administrative and procedural structures currently established for GOEO.

Legislature Should Address Commission Membership Terms, and Role

Establishing the commission model should involve the Legislature considering the membership and role of the commission. A common feature in other states with established governing boards or commissions is inclusion of members appointed by legislative leaderships. With specific reference to Montana, the inclusion of members appointed or recommended by the leadership of the university system appears to be an important consideration for the Legislature. GOEO policy initiatives have included the role of the university system in economic development, and there is growing recognition that functions relating to further education are a principal component of state economic development policy. Another feature the Legislature could consider is appointing commission members for staggered terms. As with the Board of Regents, this could provide an added measure of continuity.

The commission's role should be defined in relation to those functions the Legislature assigns to GOEO. In general terms, the commission could play an important role in assigning the office's resources (see next chapter). Another important consideration for the Legislature is the presence of other boards, commissions or councils with economic development responsibilities. The extent to which a GOEO commission duplicates or potentially supercedes the work of other groups should be considered and addressed in any reorganization of responsibilities.

Recommendation #4

We recommend the Legislature address improvements in oversight, guidance and operational direction for the Governor's Office of Economic Opportunity by:

- A. Revising the GOEO governance structure to include oversight functions conducted by an appointed commission.
- B. Determining the membership terms and role of the commission.

Chapter VI - Resource Availability

Introduction

GOEO has faced resource limitations since its establishment. Resource availability issues relate to both the office's staffing and budgets. This chapter addresses both the human and financial resource needs of GOEO. However, it should be recognized that the office's policy focus means human resource availability is a more important issue. The lack of significant program operational and administrative responsibilities means the financial resources available to the office are of secondary importance. The level of financial resources devoted to GOEO are also, to some extent, dependent on the Legislature's decisions regarding the office's role.

Human Resources

The CBO is appointed by the Governor, but statute authorizes GOEO to employ or contract with "policy specialists" to implement the office's functions. Under section 2-18-103 (20), MCA, the CBO and six professional staff positions are exempted from provisions in statute relating to state employee classification, compensation and dismissal. GOEO was originally established with budgetary authority for six FTE transferred from the Department of Commerce, in addition to the newly created CBO position. During the past three years, the office filled five of these allocated positions. In 2003, the Legislature eliminated the unfilled FTE position, reducing the office to five FTE and the CBO.

Problems with Staff Retention

Discussions with GOEO staff have shown there is concern over the office's ability to retain the services of professional staff. The office currently operates with two FTE, in addition to the CBO. Two employees left during 2003, and one position was left vacant following the death of another employee. GOEO has argued that one of the factors contributing towards employee departures is that these positions are perceived as being political appointments. Exemption from state employee classification results in these positions being perceived as non-permanent, political appointments. The CBO has confirmed that following staff departures, GOEO did not actively recruit for new employees because the office could not offer a stable environment. This view is shared by many of the agency staff we spoke with, as well as representatives of local economic development groups and other individuals in the private sector.

Chapter VI – Resource Availability

Staffing Continuity in Policy Functions

Among agencies and private sector groups coordinating work with GOEO, there are concerns over maintaining continuity in their relationships with the office. Many of people involved in the state's economic development efforts have pointed to the need to build long-term relationships and are worried that changes in GOEO staff could adversely impact ongoing initiatives. An often-cited example of the value of continuity in policy and planning functions is the Office of Budget and Program Planning. Losing the professional experience and expertise of individuals in this office could have a negative effect on the state's budgeting process.

Maintaining Flexibility in GOEO Staffing

Exempting GOEO staff from state employee classification does not appear to have been related to attempts to create a highly politicized office. Both the CBO and several of the staff positions were filled following a competitive hiring process, and there is no evidence to suggest any appointments were made on a basis other than professional competence. It appears more likely that exempting GOEO staff was designed to provide the office a degree of flexibility and ensure human resource practices and compensation levels were comparable with similar organizational levels in the private sector. Review of staffing practices in other states shows there is no consensus regarding the status of staff as classified state employees. Some states with executive-level economic development functions choose to exempt staff, while others do not.

Financial Resources

GOEO is funded primarily through the state's general fund. The legislature has also chosen to provide additional program-specific appropriations to cover the business recruitment and workforce development functions assigned to the office. The following table shows GOEO appropriations for fiscal years 2002 through 2005. This data does not reflect the office's operating budgets or actual expenditures.

Table 4
GOEO Appropriations by Fund Type

<u>Fiscal Year</u>	<u>Statutory Appropriation</u> *	<u>State Special Revenue</u> **	<u>General Fund</u>	<u>Total Appropriations</u>
FY 2002	\$350,000	\$0	\$850,000	\$1,200,000
FY 2003	\$175,000	\$0	\$850,000	\$1,025,000
FY 2004	\$0	\$115,000	\$690,000	\$805,000
FY 2005	\$0	\$115,000	\$690,000	\$805,000

* Statutory appropriation from coal severance tax permanent fund interest income for business recruitment function.

** State special revenue appropriation authority is contingent on revenues generated through tax increment financing. To date, no funds have been transferred.

Source: Compiled by the Legislative Audit Division from House Bill 2 appropriations data.

Over the past four years, GOEO has seen its total available funding reduced by approximately one third. Funding reductions have been realized through the elimination of statutory appropriations for the business recruitment function and reductions in the office's general fund appropriation. For fiscal year 2004 and fiscal year 2005, the Legislature assigned GOEO an additional \$115,000 for administration of the Primary Sector Business Workforce Training Act. However, it should be noted that this funding increase reflects additional programmatic duties assigned to GOEO. For other functions, GOEO relies solely on the general fund appropriation to meet its statutory mission, which has not been revised since the office's creation. In reality, the funding reduction (based only on general fund) is around 42 percent and these cuts have been made without any changes in the scope of the office's functions.

Chapter VI – Resource Availability

Evaluating the Impact of Funding Reductions

The primary impact of funding reductions has been the elimination of an active marketing and business recruitment function discussed previously. Impacts on other GOEO operations are more difficult to determine, mainly because staff retention problems have complicated evaluation of the office's progress. Had all the vacant positions in GOEO been filled, the office's level of activity may have been greater and more information would be available regarding the appropriate level of funding. Given the situation with staff retention, it is not possible to determine whether the current general fund allocation is sufficient to meet the office's non-programmatic functions (policy development and coordination, and strategic planning).

Legislature Should Address GOEO Staffing and Funding

Staff shortages and funding cuts have impacted the ability of GOEO to meet its goals and objectives. Both these issues could benefit from the renewed involvement of the Legislature. Following any decisions regarding the future role of the GOEO and changes in the office's governance structure, the Legislature should consider addressing the status of GOEO staff and the funding available to the office.

Staff Positions Should Reflect Governance Structure

Maintaining flexibility in staffing decisions could be beneficial for GOEO, but there are understandable concerns over instability resulting from frequent turnover. However, this instability results, partly, from the GOEO governance structure addressed in the previous chapter. Seen in this light, the problem does not relate to exemption of positions from state employee classification (many government positions, including legislative branch staff, are exempted without being subject to frequent turnover). The problem relates to the link between specific gubernatorial administrations and the office's staff. The potential solution could be assigning GOEO personnel as the permanent staff of a governance commission. Decisions regarding terms of service would be the responsibility of the commission.

Funding Should be Stabilized

We also believe the Legislature should consider taking steps to stabilize GOEO funding to ensure the functions performed by the

office can benefit from long-term continuity. Identifying a stable, long-term revenue source could help provide a greater degree of continuity in Montana's economic development functions and promote strategic thinking in efforts to improve the economic well-being of the state.

Recommendation #5

We recommend the Legislature revise the status of GOEO staff positions and stabilize the office's funding to reflect any changes in the office's role and governance structure.

Appendix A - Audit Approach

Audit Scope

Development of audit scope was based primarily on guidance provided in House Bill 2. In relation to audit scope, HB2 provided fairly specific guidance, but was framed in generally permissive terms, i.e., the request is to include specific review elements, rather than focus exclusively on the highlighted areas. We interpreted the available guidance as allowing expansions in audit scope beyond the elements specified in HB2. Expanding the scope resulted in inclusion of objectives and sub-objectives relating to the overall effectiveness of GOEO.

Audit scope included obtaining input from staff in other state agencies with economic development responsibilities, staff in the university system, representatives of local economic development organizations, and individuals in the private sector. However, review focused only on the involvement of these other entities in GOEO operations and activities. The efficiency and effectiveness of other economic development functions within or outside of state government were excluded from the scope of this review.

Unless otherwise stated, all GOEO activities since the office's inception in 2002 were included for review. Except for financial data, timeframes are generally presented in calendar year format

Audit Methodologies

In response to audit objectives, we developed the methodologies outlined in the following sections.

Audit Planning

We reviewed statute relating to the role, duties and responsibilities of GOEO, and the office's relationships with other entities in state government. We obtained information from the Legislative Fiscal Division relating to state economic development policy. We attended meetings of the Economic Affairs Interim Committee and reviewed documents and other materials submitted to the committee as part of testimony relating to economic development functions in state government. We reviewed performance and financial compliance audit reports from legislative audit offices in other states. We also reviewed numerous public policy studies and reports from

Appendix A - Audit Approach

the federal Economic Development Administration, the National Conference of State Legislatures, the National Governor's Association, the International Economic Development Council, the Urban Institute, the Progressive Policy Institute, the National Academy of Public Administration, the Humphrey Institute of Public Affairs, the Montana Ambassadors, and various universities and academic experts.

GOEO Strategic Planning

We interviewed GOEO staff, staff in other state agencies and the university system, and people in the private sector regarding the development of the GOEO strategic plan. Interviews addressed multiple issues, including procedures for obtaining input on the plan, and assessment of policy initiatives and performance measurement procedures. We reviewed federal Economic Development Administration reports addressing general best practice advice for strategic planning. We also reviewed three strategic plans produced by state agencies in Montana to identify best practices. We reviewed TransPlan 21 (Department of Transportation), the Montana Tourism and Recreation Strategic Plan 2003-2007 (Department of Commerce), and the Statewide Comprehensive Outdoor Recreation Plan (Department of Fish, Wildlife and Parks). Policy initiatives and were compared with initiatives proposed in strategic economic development plans for other Western states (judgmental sample based on geographic proximity). Performance measurement procedures were compared with other states (judgmental sample based on states using performance measurement as part of strategic economic development planning), and with best practice guidance provided by public policy research and academic organizations.

GOEO Activities and Accomplishments

Review of GOEO activities and accomplishments involved interviews with GOEO staff and with staff in other agencies, the university system and people in the private sector regarding implementation of strategic plan initiatives and other activities conducted by the office. We also reviewed documentation relating to ongoing activities being pursued by GOEO or where the office has worked in conjunction with other organizations. Policy-based and programmatic activities being conducted by GOEO were compared

Appendix A - Audit Approach

GOEO Organization and Effectiveness

with other states using governmental structures with similar organizational features.

To develop descriptions of the role and organizational position of GOEO in the state's economic development structure, we compiled information from statute, and discussed organizational issues with GOEO staff, staff in other agencies and the university system, and individuals in the private sector. We contacted staff at the National Conference of State Legislatures to obtain information on economic development organizational structures in other states. We also gathered statutes and organizational descriptions from other states showing the division of policy-based and programmatic responsibilities for economic development functions in other states. We also reviewed information relating to the office's effectiveness, including staff resources and appropriations and budgets for the last four fiscal years.

Areas for Further Study

During the course of audit work we identified the following issue as a possible area for further study.

Research and Development in the University System

One of the policy initiatives being pursued by GOEO is promoting commercialization of research and development conducted in the university system. Montana's two main research campuses at Missoula and Bozeman are jointly responsible for around \$200 million in research and development expenditures annually. Evaluating the growing importance of research and development resources in the economy and the universities' role in managing these resources effectively could be the subject of a future performance audit.

Office Response

OFFICE OF THE GOVERNOR

STATE OF MONTANA

JUDY H. MARTZ
GOVERNOR



STATE CAPITOL
PO Box 200801
HELENA, MONTANA 59620-0801

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DEC 06 2004

LEGISLATIVE AUDIT DIV.

December 6, 2004

Scott A. Seacat, Legislative Auditor
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

This letter is in response to the recommendations contained in the performance audit of the Governor's Office of Economic Opportunity. We thank the Legislative Auditor's Office for their diligence and hard work in combing through a vast amount of material. We believe the audit staff have been very fair in their assessment of possible opportunities to improve the office and its function.

The Governor's Office concurs with all the recommendations contained in the audit. However, as an outgoing administration, we are limited in what we can do to implement these recommendations. We will make sure that the audit report is given to the incoming administration for their use in reviewing the structure and mission of the Office of Economic Opportunity.

Sincerely,

A handwritten signature in black ink, appearing to read "Barbara Ranf".

Barbara Ranf
CHIEF OF STAFF

